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SENSITIVE  
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STATE PASS TO USTR - BISBEE  
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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [EINV](#) [CB](#)  
SUBJECT: U.S. BUSINESSES CONCERNED ABOUT FINANCIAL, NOT POLITICAL,  
STABILITY IN CAMBODIA

REF: 08 PHNOM PENH 851

SENSITIVE BUT UNCLASSIFIED

¶1. (SBU) Summary and Comment. The future stability of the Cambodian financial sector was foremost on the minds of U.S. business representatives during a monthly AmCham breakfast meeting hosted by the Ambassador March 26. Not dissimilar to problems in the U.S., turmoil in the real estate market, coupled with the economic slowdown, threatens to reveal vulnerabilities in the banking sector. Non-performing loans are believed to have been underreported in the past; the economic slowdown and falling property prices increases the risk of these non-performing loans. However, despite their concerns over banking sector weaknesses and the availability of credit, the AmCham members rejected predictions that Cambodia was at significant risk of political instability. End Summary and Comment.

#### Rapid Credit Growth Linked to Real Estate Worrying

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¶2. (SBU) During a March 26 breakfast meeting with the Ambassador, AmCham members expressed growing concern about the health of Cambodia's financial sector. The banking sector has experienced robust growth over the past few years, with the number of banking and financial institutions increasing rapidly (Ref A). According to the IMF, credit growth grew by over 100 percent year on year in mid-2008, and is estimated to have slowed to 60 percent by the end of last year. The IMF and others have expressed concern about the ability of the National Bank of Cambodia to keep pace with and provide adequate supervision to the expanding sector.

¶3. (SBU) Michael Stephen, Chairman of the Mekong Bank, warned that, during a period of over-exuberant lending in the past, the rapidly growing economy may have masked questionable lending practices which could now pose significant risks for the banking sector. Several AmCham members highlighted the linkage between the real estate market and banks' lending practices as contributing to the risk of increasing non-performing loans in banks' portfolios. Despite urging to the contrary by the National Bank of Cambodia, commercial banks continued to issue loans heavily backed by real estate assets as collateral. (Note: According to the National Bank of Cambodia, real estate lending amounted to seven percent of total lending in 2008, however, the construction sector received eight percent of all loans, and an additional seven percent of loans were made to individuals purchasing property. End Note.)

¶4. (SBU) Cambodians (and foreign partners) seeking to make a quick buck by purchasing properties with the intention of flipping them for a significant profit, helped to fuel the recent real estate boom. However, the real estate market has been stagnant since mid-2008 and property prices have fallen, leaving many indebted speculators holding properties significantly below their expected value.

15. (SBU) Several AmCham members explained the difficulty in assessing the current true value of the real estate market. Even in the best of times, appraisal of real estate assets was difficult given the lack of reliable market information. However, now that real estate transactions have ground to a halt, and in the absence of sales, it is even more difficult to assess the true value of a property. Other than real estate, there are few other forms of eligible collateral.

16. (SBU) Another American businessman reported that several financial institutions recently informed him that they were considering a moratorium on lending for the time being, given the slowing economy and growing concerns about appraising real estate collateral and the ability of debtors to repay.

Doubt Findings on "Political Instability" in Cambodia  
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17. (SBU) The AmCham members had a strong reaction to the recent Economist Intelligence Unit's recent Political Instability Index, which ranked Cambodia as the fourth most at-risk country in the world (tied with Sudan, and below Zimbabwe, Chad, and the Democratic Republic of Congo). The index listed Cambodia as more at risk of political instability than Iraq or Afghanistan.

18. (SBU) The U.S. business representatives rejected the findings as out of touch and exaggerated, and questioned the methodology used to determine a country's vulnerability to social unrest. The Ambassador agreed that the assessment seemed to overstate the risk of social unrest in Cambodia relative to the rest of the world and noted that the report provided scant information as to what factors lead to finding Cambodia as being at "very high risk" of political

PHNOM PENH 00000205 002 OF 002

instability. One AmCham member remarked to the Ambassador that the Economist Group's "parachutist approach" to coverage of Cambodia has routinely resulted in poorly informed and at times erroneous articles about developments in Cambodia.

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